

COMMISSIONERS

Lea Márquez Peterson - Chairwoman
Sandra D. Kennedy
Justin Olson
Anna Tovar
Jim O'Connor



LEA MÁRQUEZ PETERSON
CHAIRWOMAN

(602) 542-3625 office
(602) 463-3814 mobile
LMárquezPeterson-Web@azcc.gov

ARIZONA CORPORATION COMMISSION
OFFICE OF CHAIRWOMAN LEA MÁRQUEZ PETERSON

April 27, 2022

RE: In the Matter of Financing Applications in 2022:

Cerbat Water Company (Docket No. W-02391A-20-0269)
Truxton Canyon Water Company, Inc. (Docket No. W-02168A-21-0011)
Liberty Utilities Corp (Entrada Del Oro Sewer Company) (Docket No. SW-04316A-21-0359)
Liberty Utilities (Gold Canyon Sewer) Corp. (Docket No. SW-02519A-21-0360)
Ranchero Del Conejo Community Water Co-OP, Inc. (Docket No. W-02102B-22-0040)
Mountain Glen Water Service (Docket No. W-03875A-22-0049)
Rose Valley Water Company (Docket No. W-01539A-22-0064)
Arizona Public Service Company (Docket No. E-01345A-22-0083)
Arizona Electric Power Cooperative, Inc. (Docket No. E-01773A-22-0094)

My Fellow Commissioners, Staff, and All Interested Parties:

Over the last several years, interest rates have been at an all-time low. From approximately April 2020 to February 2022, the Federal Funds Effective Rate was under 0.10%.

Historically low interest rates such as these benefit customers if utilities issue debt during the relevant timeframe because it allows such utilities to provide equal reliability at a lower weighted average cost of capital to customers in future rate cases.

Over the same timeframe however, the country has witnessed exponential inflation so significant that it has surpassed the highest level it's been since 1981, nearly 9.5%. As a result, the U.S. Federal Reserve has announced plans to increase interest rates over the next several months, which means utilities and their customers may no longer be able to take advantage of the historically low costs of debt.

As of the date of filing this letter, the utilities captioned above have filed applications seeking Commission authorization to issue or refinance debt. From my perspective, it seems the utilities are anticipating the future interest rate hikes and, by filing their respective applications now, are taking proactive efforts to hedge against those future increases and secure the best possible interest rates for their customers—before it's too late.

While the cost of debt today is still lower overall than the cost of equity, every day that passes wherein a utility is unable to take advantage of historically low interest rates is a day that may cause the weighted average cost of capital for the respective utility and its customers to be higher in the future.

Thus—every day that the Commission fails to process the above-captioned financing applications is a day that the relevant utilities may be unable to 'lock in' the best interest rates possible for their customers.



Office of Chairwoman Lea Márquez Peterson

Docket No. W-02391A-20-0269

Docket No. W-02168A-21-0011

Docket No. SW-04316A-21-0359

Docket No. SW-02519A-21-0360

Docket No. W-02102B-22-0040

Docket No. W-03875A-22-0049

Docket No. W-01539A-22-0064

Docket No. E-01345A-22-0083

Docket No. E-01773A-22-0094

April 27, 2022

Page 2 of 2

Accordingly, I would like to make the following requests:

- (1) To the extent possible, Staff prioritize the processing and review of all new financing applications filed in Quarters 1 and 2 of 2022 and all pending financing applications filed in 2021. As Chair, I will commit to placing all recommended opinions and orders related to such applications on the Commission's open meetings as expediently as possible.
- (2) That the development and implementation of a performance incentive bonus be considered in the next round of rate cases for utilities that took advantage of historically low interest rates in 2020 and 2021 to proactively reduce the weighted average costs of capital for their customers.

Sincerely,

A handwritten signature in blue ink that reads "Lea Márquez Peterson".

Lea Márquez Peterson

Chairwoman

